

INTRODUCTORY SECTION

**City of Manchester
Department of Finance**

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November 30, 2006

To the Honorable Board of Mayor and Aldermen and
Citizens of the City of Manchester, New Hampshire

The Comprehensive Annual Financial Report (the CAFR) for the City of Manchester (the City) for the fiscal year ended June 30, 2006 is hereby submitted. The City's Finance Department prepared this CAFR. The purpose of this report is to provide citizens, investors, grantor agencies, and other interested parties with reliable financial information about the City. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and changes in financial position of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's activities have been included.

The CAFR is presented in three sections: the introductory section, the financial section, and the statistical section. The introductory section, which is unaudited, includes this letter of transmittal, the City's organizational chart, and a listing of City officials. The financial section includes the independent auditor's report, management's discussion and analysis (MD&A), the basic financial statements, notes to financial statements, and the combining and individual financial statements and schedules. The statistical section, which is unaudited, includes pertinent financial and general information indicating trends for comparative basis fiscal years. The MD&A is management's opportunity to provide an overview and analysis of the City's financial operations. The MD&A should be read in partnership with this transmittal letter.

The City's Charter requires an annual audit by an independent certified public accountant. The City has engaged McGladrey & Pullen, LLP, Certified Public Accountants, to conduct the City's audit for the fiscal year ended June 30, 2006. The auditor's report on the basic financial statements is included in the financial section of this report. In addition to meeting the requirements set forth in State statutes and the Charter, the audit was designed to meet the requirements of the federal Single Audit Act and related OMB Circular 133. The auditor's reports on internal controls and compliance can be found in a separately issued Single Audit report.

The City's basic financial statements include all entities for which the City is financially accountable, and other organizations of the City for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The City's financial statements include three discretely presented component units – the Manchester School District, the Manchester Development Corporation, and the Manchester Transit Authority.

General - The City, the largest United States city north of Boston, Massachusetts is located on the Merrimack River in south central New Hampshire. Manchester is approximately 58 miles north of Boston and is bordered by the towns of Hooksett, Bedford, Londonderry, Goffstown, Auburn, Litchfield, and Merrimack. The City has a population of 109,761, according to the 2005 report of the New Hampshire Office of State Planning, and occupies a land area of 33.9 square miles. The Manchester Metropolitan Area, with a ten mile radius, has a population of over 310,000, and the Manchester Trade Area, with a 20 mile radius, has a population of over 628,000. The Manchester Metropolitan Area and the Manchester Trade Area are areas that the City believes represent key geographic regions for the City's growing economy.

The City provides general governmental services for the territory within its boundaries, including police and fire protection, collection and disposal of garbage and rubbish, water and sewer services, highways, and street and sidewalk maintenance, public health and welfare, and code compliance. Public education is provided through the MSD for grades kindergarten through twelve and vocational education is available in grades nine through twelve. In addition, the City maintains 47 parks, two ice-skating coliseums, the McIntyre Ski Area, the Derryfield Country Club, four municipal pools, a minor league baseball stadium and a 10,000 seat civic arena. The City also owns and operates the Manchester-Boston Regional Airport.

Government— The City operates with a strong mayor form of government. The Mayor is the City's full-time chief executive officer. The Mayor has appointment powers and budget line-item veto authority. The City's Charter, approved by the voters in 1996, includes an ethics policy, a local initiative option, and calls for the formation of a Charter Review Committee every ten years.

The City is governed by an elected Mayor and a fourteen member Board of Aldermen (BMA) representing each of the city's twelve wards and two aldermen elected at-large. The BMA approves the City's budget. The Finance Committee, consisting of the entire Board of Mayor and Aldermen, approves labor contracts and also adopts monetary appropriations.

City financial management is the responsibility of the Finance Officer and the Department of Finance. The Finance Officer is responsible for establishing and maintaining a system of controls and financial reporting to ensure that the City's assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with law and generally accepted accounting principles (GAAP). The Department of Finance also performs significant and ongoing monitoring of the financial performance of the City's departments and enterprise funds, including monthly and quarterly interim reports and forecasted year-end revenue and expenditure/expense balances for all departments.

As required by City ordinance and by the Charter, interim reports are submitted to the BMA. Interim reports are reviewed with the Committee on Accounts, Enrollment and Revenue Administration (COA). The COA is a five member standing committee of the Board of Aldermen. The COA meets on a regular basis to review and to discuss financial matters. The City has adopted debt policies and ordinances for the handling of one-time revenues, insurance reserves and undesignated fund balances.

Internal Controls - Management of the City is responsible for establishing and maintaining a system of internal controls over financial reporting to ensure that the assets of the government are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the

preparation of financial statements in conformity with GAAP. Controls are designed to provide reasonable, but not absolute assurance regarding (1) the safeguarding of assets against loss from unauthorized use; and (2) the reliability and accuracy of financial statements. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived; and that the evaluation of cost and benefits requires estimates and judgment by management. The City believes that its internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Independent City Auditor – The Charter requires an Independent City Auditor (IA). The IA is responsible for the independent audit of the City's CAFR as well as conducting investigations, analyses and research. The existence of the IA provides for strong internal controls.

Appropriation Process and Budget Control - The Charter provides for the Mayor, and such other officials as the Mayor shall select, to prepare a budget for consideration by the Board of Aldermen. The Charter requires budget adoption by the second Tuesday of June. If the BMA fails to adopt appropriation resolutions for the ensuing fiscal year by June 30th, the Mayor's budget as originally proposed shall prevail. The Charter also provides for supplemental appropriations, reductions of appropriations, transfers of appropriations under certain limited circumstances and allows for the adoption of biennial budgets.

The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the BMA. Activities of the general fund are included in the annual appropriated budget. Project-length budgets are prepared for the special revenue and capital projects funds. The level of budgetary control is the departmental level within each fund.

Cash Management - The City has an adopted Investment Policy. The Investment Policy conveys the concept that the preservation of capital and the liquidity requirements are the two primary factors considered in the structure of the portfolio. The Finance Officer reports on investment performance to the Board of Mayor and Aldermen on a quarterly basis.

Excess cash is invested in U.S. Treasury Bills, certificates of deposit, repurchase agreements, and the State of New Hampshire (the State) Investment Pool. The maturities of the investments range from thirty days to six months, with the average maturity closer to the thirty-day range. approximately **75%** of the cash and investments held at fiscal year-end in the city-wide statements were collateralized through Joint Custody Accounts at the Federal Reserve Bank of Boston or through perfected collateral arrangements.

Risk Management - The City has a program of both self-insurance and policies for worker's compensation, health, and general liability. Under this arrangement a third party administrator manages the claims with the City Risk Manager.

Community Improvement Programs – As part of the budget process, the Finance Officer provides the Mayor and Aldermanic CIP committee with a five year debt affordability forecast as a basis for the development of the Mayor's recommended CIP program/budget. The project initiatives are envisioned over the ensuing fiscal period in accordance with the affordability forecast.

Economy-As the State's largest city and business center, Manchester boasts a diversified economic base. The combination of these new economic projects along with the City's successful investment in the Manchester Airport, the Verizon Wireless Arena and various Millyard initiatives should help sustain the City's economy for the next decade. The City has made a major effort to diversify its economy. This planned effort has led to the location of an array of businesses and industries in the City, and has provided a strong base for future economic development activities. Much of this diversification was accomplished through redevelopment projects, which required a high degree of public and private cooperation.

The City has taken actions to stimulate the local economy, it should be recognized that the overall New Hampshire economy is expected to remain the strongest in the region. New Hampshire's current growth outpaces both national and New England averages. Housing reports indicate that southern New Hampshire is bucking national trends. Nationally housing sales are up, but prices are down. In southern New Hampshire housing sales are down, but prices are still on the rise though not at the rates seen over the last several years.

While the City's current economy appears resilient with property tax collections remaining strong, the Board of Mayor and Aldermen have adopted policies and capital initiatives to further strengthen the City's financial condition and the local economy during this anticipated sustained period of economic slowdown. These projects are aimed not only at providing jobs, but also more importantly, at enhancing local education and quality of life.

Employment remains strong in the City. The labor force in the Manchester NH MetroNECTA numbers 108,530 while the unemployment rate is 3.3% (June 2006).

Debt- The general debt limit of the City is 9.75% of base valuation¹, of which. Water and Sewer projects ordered by the State Water Supply and Pollution control commission, self-supporting sewer debt, debt for urban redevelopment and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the City's base valuation. Borrowings authorized by special legislative acts rather than the general municipal finance statutes are sometimes excluded from a city or town's statutory debt limit.

As of June 30, 2006 the City has a total outstanding General Obligation debt of \$183,585,245 and authorized and unissued debt of \$75,395,107 for various improvements, infrastructure improvements, and economic development projects.

The City currently retains the following credit ratings; FitchRatings (Fitch), Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P), have assigned the ratings of "AA+," "Aa2," and "AA+," respectively. The MSD was assigned the following credit ratings; Fitch, Moody's and S&P, have assigned the ratings of "AA," "Aa3," and "AA," respectively. The MWW was assigned the following credit ratings; Fitch, Moody's and S&P, have assigned the ratings of "AA," "Aa3," and "AA," respectively.

¹ Base valuation for debt limits is provided annually by the State of New Hampshire Department of Revenue Administration as part of the calculations for equalized assessed valuations for each municipality, and amounted to \$1,033,736,702.

I would like to thank the City's department heads and the hard working staff in all of the for completion of another successful year. I would especially like to thank the employees of the Finance Department for their commitment and dedication.

Respectfully submitted,

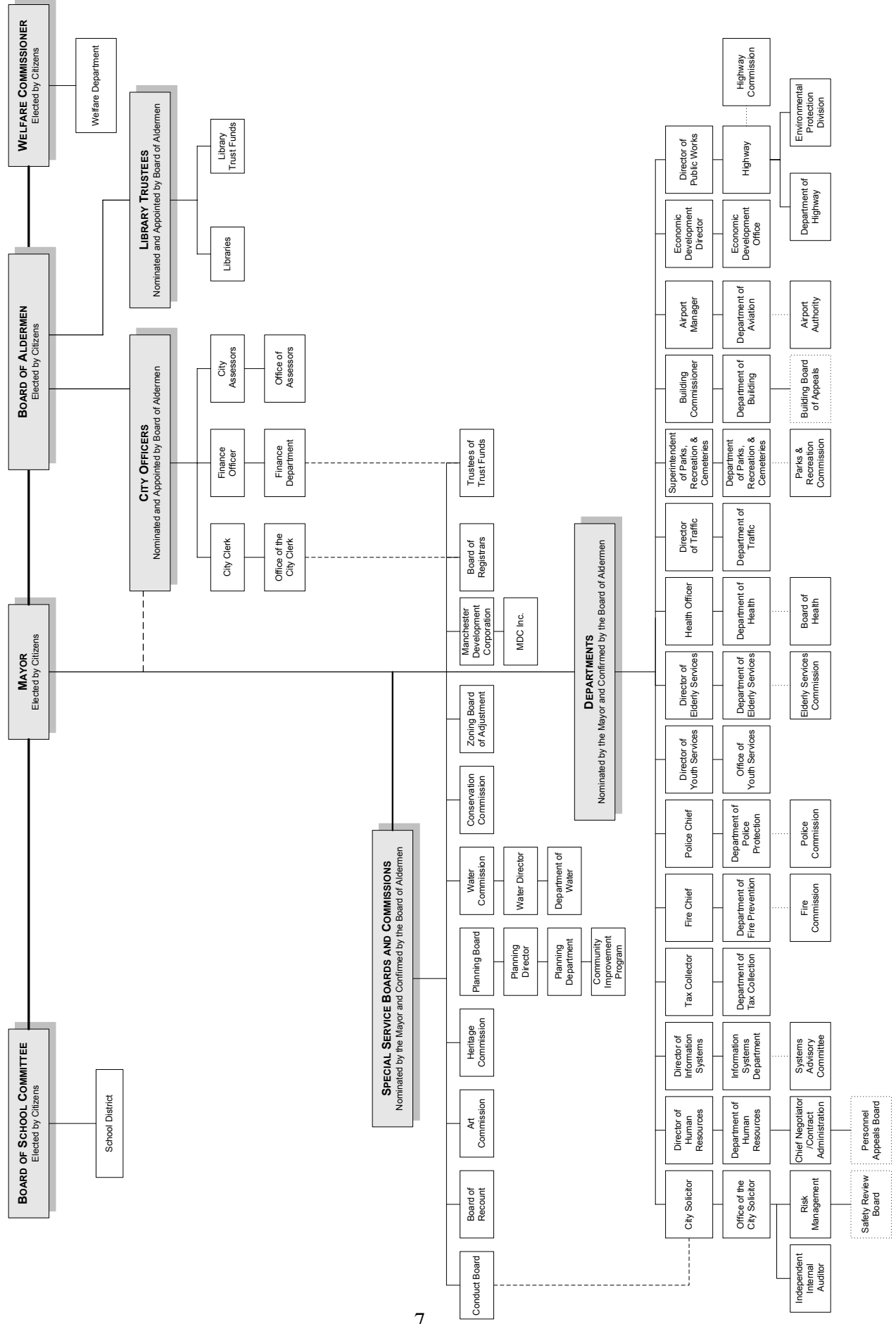
A handwritten signature in dark ink, reading "Randy M. Sherman". The signature is fluid and cursive, with the first name "Randy" being more prominent and the last name "Sherman" following in a similar style.

Randy M Sherman
Finance Officer



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CITY OF MANCHESTER NEW HAMPSHIRE
ORGANIZATION CHART



**List of Principal Officials
in office at the close of fiscal year ended June 30, 2006**

Mayor

Frank C. Guinta

Aldermen

Ward 1	Mark E. Roy	Ward 7	William P. Shea
Ward 2	Theodore L. Gatsas	Ward 8	Betsi L. DeVries
Ward 3	Patrick T. Long	Ward 9	Michael D. Garrity
Ward 4	Jerome Duval	Ward 10	George W. Smith
Ward 5	Ed Osborne	Ward 11	Henry R. Thibault
Ward 6	Real R. Pinard	Ward 12	Armand D. Forest
At-large	Michael J. Lopez *	At-large	Daniel P. O'Neil

* Chairman of the Board

City Departments

Finance Officer	Kevin A. Clougherty
Deputy Finance Officer	Randy M. Sherman, CPA
Second Deputy Finance Officer, Treasury Manager	Joanne L. Shaffer, CTP
City Clerk	Leo R. Bernier
City Solicitor	Thomas R. Clark
Commissioner of Welfare	Paul R. R. Martineau
Chief of Police	John A. Jaskolka
Fire Chief	Joseph P. Kane
Public Health Director	Frederick Rusczyk, M.P.H.
Director of Public Works	Frank C. Thomas, P.E.
Director of Parks, Recreation & Cemetery	Ronald E. Ludwig
Director of Economic Development	Paul Borek
Building Commissioner	Leon LaFreniere
Director of Traffic	Unfilled
Airport Director	Kevin A. Dillon
Director of Water	Thomas M. Bowen, P.E.
Director of Information Systems	Diane Prew
Director of City Library	Unfilled
Director of Planning Board	Robert S. Mackenzie
Superintendent of Schools	Michael Ludwell, Ph.D.
Director of Human Resources	Virginia A. Lamberton
Director of Elderly Services	Barbara A. Vigneault
Director of Youth Services	Martin Boldin
Chairman Board of Assessors	David Cornell
Collector of Taxes	Joan A. Porter